

Brazil

Brazil is Latin America's wealthiest nation and in 2013 boasted a \$42.2 billion M&E industry, which is expected to grow to \$68.8 billion in 2018. By 2017, 93 percent of Brazil's population will live in urban areas (up from 88 percent in 2012), and along with the growing middle class, demand for M&E content is expected to rise dramatically. The 2014 World Cup and the pending 2016 Olympics have spurred growth for entertainment venues and companies providing live music, animation, and media tools.

Film	1	Games	3	Overall Ranking 4
Music	2	Television	3	

Brazil ranks fourth on ITA's list of top M&E export markets. U.S. exporters are expected to be particularly competitive in filmed entertainment and music, but will have to remain vigilant to protect copyrights and market share. Brazil is still developing its international licensing system, and while opportunities abound as Brazilians are just as eager to share their creative talent as they are to learn about U.S. M&E trends, trade barriers abound.

Exporters are advised to have a local attorney who speaks Portuguese, to advise on taxation and licensing laws, and to help navigate the copyright laws which have been in flux in recent years. Fraudulent payment systems and scams are other concerns for U.S. businesses in this marketplace.

Nonetheless, it is a vibrant entertainment marketplace. The film industry is well developed, while television is more localized and games are growing both for digital consoles and online. Music is a vital cultural force in

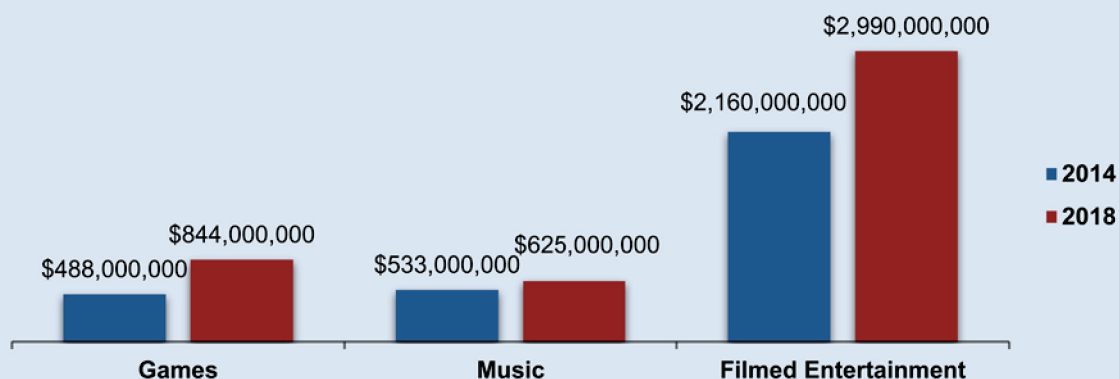
Brazil and there is demand for American jazz and electronic/trance, among other genres, in the Brazilian marketplace.

Overview of the M&E Market

Brazil is Latin America's largest media market and the only Portuguese speaking country on the continent. Brazil has thousands of radio stations and hundreds of TV channels, both very influential media with highly concentrated ownership that are tightly regulated by the government.¹⁵

The government is implementing its digital TV transition and will switch off analog in 2016. Presently, 17 percent of homes subscribe to pay-TV. Globo, Brazil's cable giant, counts almost half of the country's population as its viewership and offers pay-TV stations, magazines, radio, film production and newspapers, although the bulk of Globo's \$6.3 billion (2013) fortune comes from its broadcast network, which airs

Figure 6: Media and Entertainment in Brazil (2014-2018)*



* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

telenovelas (soap operas) that are popular throughout the continent. Globo is not only the largest Brazilian media company, it is the largest in Latin America¹⁶. Steve Solot, President of Rio Film Commission confirms that despite the country's general economic deceleration, the film and especially TV industry is surging, boosting demand for content in all audiovisual segments.

The Brazilian government has announced its support for the film industry, and box office receipts are growing rapidly, but could be at risk due to weak economic development and due to the major sporting events that take place during the time of year typically associated with high movie attendance in Brazil. The Brazilian music industry is very diverse and localized, and certain genres of foreign music are more popular than others for export purposes, such as jazz, trance and lounge, rock, and folk, especially as many Brazilians begin to listen to and purchase music in foreign languages. American music is popular in Brazil, but Brazilian music is the most popular as many still prefer to listen to music in Portuguese. Brazilians are wired and digitally savvy, with 91 million people online. Consumers are easy to reach via online marketing campaigns. Among social media trends, YouTube is extremely popular.

The media is controlled by a small number of large corporations that are known to cater to the needs of their advertisers and the tastes of the general population. Access to radio is dictated by *pay for play* (with receipts and invoices), favoring the majors. Finally, Brazil is considered the gateway to the rest of Latin America for emerging artists¹⁷.

Challenges Facing U.S. M&E Exporters

Copyright industries doing business in Brazil face significant Internet piracy, as do products in the entertainment sector, such as CDs, DVDs, and other media carrying pirated music, movies, TV programming and video games. Circumvention devices that control access to video game consoles are a problem for all copyright sectors. That said, the industry faces roughly the same amount of Internet piracy as is found in any other middle income country, and Brazilians consume pirated DVDs and engage in illegal downloading. The activity is driven by high costs and taxes on entertainment, and lack of a full catalogue offering to the public, some of which is a governmental problem, and some of which is caused by the industry. Problems with enforcement for illegal downloads are being

addressed this year in a pending and long-awaited new copyright law. Brazil has significantly improved enforcement against hard goods piracy over the past five years, which includes DVDs/CDs. The new copyright bill will likely also contain express "fair use" exceptions and limitations.

Opportunities for U.S. Companies

U.S. companies that are willing to invest in the Brazilian market and build personal relationships with businesses in Brazil stand a fair chance at doing repeat business in this relationship-driven economy. The creative industry has always been vibrant in Brazil, and now the country is focused on building a world class M&E sector, a process that was intensified by the FIFA World Cup 2014 and in anticipation of the 2016 Rio Olympics. In preparation for the Olympics, opportunities are available for M&E companies that offer entertainment and event services, theme parks and related entertainment, live music acts, apps, and filmed entertainment.

Filmed Entertainment

The Brazilian filmed entertainment sector is slated to reach nearly \$3 billion by 2018, up from \$2.2 billion in 2013, at a robust 6.7 percent growth rate. Box office revenues will reach \$1.13 billion, growing 7.5 percent during the same five-year period. The Brazilian government reports box office revenue grew for the ninth consecutive year in 2014 to reach \$765 million (11.5 percent) while admissions increased 4 percent to 157 million, and admission prices increased 7.2 percent to 12.55 Brazilian Reals, which is roughly U.S. \$4. The total number of screens increased 6.6 percent to 2,819 and the number of digital screens 39.5 percent to 1,622. DCI (security) compliant 3D screens increased 22.5 percent to 1,039¹⁸.

It may be challenging to translate English content into Portuguese, although many movies are also dubbed. The fastest growth will be in electronic home video which will rise at an impressive 22.4 percent to \$800 million in 2018 (from \$291 million in 2013), which will represent 27 percent of total filmed entertainment revenues. Even more astoundingly, over the top (OTT) streaming will experience a dramatic increase in revenues to \$363 million in 2018, rising 41.7 percent, and through-TV-subscription revenues will double to reach \$437 million by 2018 (up from US\$228 million in 2013)¹⁹. Content for TV and DVD, along with digital streaming and subscription services therefore offer

good growth opportunities in Brazil, especially content that is localized or offers new genres.

The Brazilian government has dedicated many resources to grow the domestic filmed entertainment sector. In 2014, President Rousseff announced \$470 million in film and TV incentives aimed at cinema expansion under a project titled “A Cinema Near You.” This project is funded by the federal government and managed by the National Film Agency, Ancine, and its Audiovisual Sector Fund (FSA) in cooperation with the National Development Bank (BNDES). Both Rio and Sao Paulo governments also offer film funding and marketing for the domestic industry, via RioFilme and SPcine. While this bodes well for the local economy, it can also open doors for U.S. producers to partner with Brazilian producers of television series and films for TV, who will have access to additional production funds, which in turn could be beneficial in terms of translation of lyrics, subtitles on content, and generally for contractual interpretation.

Brazil’s audiovisual regulatory environment is complex and favors national content and production. Although there is a vast array of production incentives for national content in every format, there is no specific foreign production incentive. However, U.S. producers can partner with a Brazilian company to access local production funds. Federal regulations for audiovisual projects overseen by Ancine have been criticized by local producers as overly bureaucratic and slow, hindering the production process.

Despite rapid growth of transactional and especially subscription-based video-on-demand (VOD) services (both foreign and national) the federal government has issued a levy on VOD services that may restrict expansion of services catalogs to mostly highly commercial films which can cover the cost of the levy. The Ancine Regulatory Agenda 2015-16, published March 13, includes this item.²⁰

Television

Subscription TV offers excellent growth opportunities for companies that are willing to navigate the quota and taxation requirements levied on foreign providers.²¹ In 2012, the Brazilian government implemented a domestic quota for pay-TV (Law 12.485), which mandated new local content quotas for pay-TV channels and thereby created enormous demand for independently produced national content to be acquired or co-produced by channels in order to fulfill the quotas. While U.S. producers can partner with

local companies to produce series and TV movies, this represents a serious trade barrier. Pay-TV penetration was only 27.8 percent in 2013, in approximately 18 million homes, but is expected to grow 35.1 percent through 2018, dominated by Net Serviços (cable) and Via Embratel (satellite). Both are backed by Telmex, a dominant Mexican telecommunications provider with a strong presence across Latin America. According to official data from Brazil, total pay-TV subscribers reached 19.7 million by the end of February 2015, marking steady growth.

Pricewaterhouse-Coopers analysts suggest the satellite TV sector will see robust growth from 16.5 percent to 20.7 percent of television households, and IPTV is expected to expand beyond approximately 600,000 households in 2013 to 2.3 million in 2018, representing excellent opportunities for U.S. exporters. It is worth noting the latter will represent about 3.1 percent of TV households.

Music

When working with the music business in Brazil, it is important to understand the local culture and how the industry is represented in two distinct communities. One represents the traditional music industry including the major labels, music publishers, and radio. The other represents the independent sector which is strongly influencing the direction of the emerging and new Brazilian music industry, represented by young managers, do-it-yourself (DIY) artists, indie labels, indie music festivals, and social media.

Exporters will need to know which segment they are targeting when entering the market and plan on meeting with buyers in person to build the relationship. For Brazilians, this is very much a relationship industry. Fortunately for U.S. exporters, most people working in the music industry speak English and often Spanish too, in addition to their native Portuguese. Radio is still the most powerful medium to expose new music and gain attention for new releases in Brazil, and television is also a very important medium, with social media and online tools following closely behind.

Music sales across Latin America grew by only 1.4 percent in 2013, and digital sales accounted for 35 percent of revenues. Brazil and Mexico dominate the market and together account for 70 percent of recorded music income in the region, although 2013 brought declines in both Brazil’s and Mexico’s music markets²². By the end of the year, Brazil recorded \$533 million in revenue, and revenues are forecast to grow

4.1 percent to reach \$652 million in 2018, signaling better times ahead. Recorded digital music sales are expected to grow by 16.6 percent, while physical will decline by 4 percent during the same period. Of that, legitimate music downloads will increase by 33.3 percent and music streaming 13.1 percent, in large part thanks to the vibrant domestic independent music sector.

These developments signal strong opportunities for U.S. labels across a broad swath of genres. Subscription services are on the rise. While mobile music (with ring and ring-back tones in particular) sets the tone for early digital music development, it is now in decline with competition from new music services and wider broadband penetration, especially in urban centers. Illegal file sharing remains problematic as Brazil's copyright law is being revised but may not gain significant ground, possibly for years to come due to changing political players and multiple agencies involved with law making.²³

The Ministry of Culture has publically announced the Copyright Bill will be released this year. Spotify and similar services are flourishing, (and for perspective, so is Netflix, representing another creative content sector), and experts believe Brazilians are likely to halt illegal downloads and file sharing once costs become more reasonable. Licensing of digital music and participation in (live-) music festivals hold the highest potential for music exporters in the short run, until the industry is better protected by more robust anti-piracy laws.

Games

Brazil has the second largest game market in Latin America after Mexico, worth \$448 million (2013), and is expected to grow 13.5 percent over the coming years, almost doubling at \$844 million by 2018. It will then boast 31 percent of the region's total video games consumers. Social media is accredited with being a major driver for this sector, and online games are tremendously popular.

Sales of game consoles will increase at a 14.8 percent rate to reach \$212 million in 2018 (from \$106 million in 2013) despite the almost 90 percent import taxation on consoles which encourages illegal trade and stifles growth in legitimate video games and consoles²⁴. New technologies will help stem piracy in the console sector, such as consoles with improved methods for detection and blocking that prevent play of pirated games on consoles, along with next-generation consoles equipped with anti-piracy software, and newer games that offer in-game downloads and multiplayer gameplay which must connect to official servers to verify legitimacy before allowing access to the games. Combined with improvements in Brazilian regulations to reduce tariff and taxation and enforce piracy, the game console sector should grow.

Free-to-play mobile and online games will grow, thanks to the high cost of video games, which will also lead to high advertisement revenues in the market place. Lastly, the Brasil Game Show (BGS) will take place in Sao Paulo October 8-12, and more information is available at: <http://www.brasilgameshow.com.br/>



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